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E.O. 12958: DECL: 08/29/2011
TAGS: [EFIN](#) [PREL](#) [EAID](#) [TZ](#)
SUBJECT: EXPORTS KEY TO TANZANIA'S DEBT SUSTAINABILITY

REF: STATE 106631

Classified By: Mary B. Johnson, Economic Counselor, for reason 1.4(d).

11. (SBU) SUMMARY. New lines of bilateral credit from non-Paris Club Members do not currently appear to be threatening Tanzania's long-term prospects for achieving debt sustainability. Neither the Bank of Tanzania (BOT) nor the International Monetary Fund (IMF) reported significant, bilateral loans in the recent past or on the horizon from non-Paris Club creditors. Post did learn that China will soon extend a new line of credit to Tanzania for rehabilitation of the Tanzanian-Zambia Railway Authority (TAZARA) and that South Korea has provided financing to Tanzania for the construction of four vocational centers. Tanzania continues to have outstanding debts with several non-Paris club creditors, including Iran, who have not yet officially offered debt relief. To ensure long-term debt sustainability, Tanzania's export performance will be critical along with debt relief efforts and prudent borrowing from bilateral partners and commercial sources. In FY 2006, Tanzania's export sector grew as a result of increased exports of tobacco, cotton, cloves, manufactured goods and tourist receipts. Still, however, the export sector remains vulnerable to external factors such as weather and terms of trade shocks. END SUMMARY.

New Lending from China, South Korea, Islamic Development Bank

12. (SBU) On June 29, China, Tanzania and Zambia signed a loan agreement to assist the Tanzanian-Zambia Railway Authority (TAZARA), which China helped finance and construct some 30 years ago. Access to this new line of credit was a result of Chinese Premier Wen Jiabo's eight day African visit in mid June 2006, which included stops in both Dar es Salaam and Lusaka. According to the Guardian newspaper, the loan agreement amounted to USD 10.8 million. Few other details about the loan agreement were released, however, if the loan resembles previous loans from China to Tanzania, interest rate terms are probably near or close to zero.

13. (SBU) South Korea has also opened up a line of credit to Tanzania for the establishment of four information and communications (ICT) vocational centers in Lindi, Manyara, Dar es Salaam and the coastal region. South Korea agreed to loan the Government of Tanzania USD 18 million toward the total project cost which was estimated at USD 22.5 million and the GOT agreed to cover the remaining cost of USD 4.5 million. This loan agreement was one outcome of a high-level visit to Tanzania by South Korean Foreign Minister, Ban Ki-Moon, in January 2005.

14. (SBU) The Islamic Development Bank (IDB) has also

recently announced a new, albeit small, loan for the Government of Tanzania. On July 2, 2006, the Islamic Development Bank reported its decision to provide USD 4.4 million as part of an export finance operation for petroleum products from Arab countries to Tanzania. Terms of the loan or further details on the program have not yet been released.

External Debt Stock: Relatively Stable

15. (C) Tanzania's total external debt stock amounted to about USD 8.23 billion in June 2006 compared to 8.13 billion in June 2005. The GOT owes approximately 67.7 percent of its external debt to multilateral institutions such as the World Bank, International Monetary Fund (IMF), and African Development Bank, 21.4 percent of its external debt to bilateral creditors and the remaining 10.9 percent to commercial and export creditors. Tanzania's debt stock has stabilized largely as a result of both bilateral and multilateral debt relief initiatives. As of June 2006, multilateral institutions under the Heavily Indebted Poor Country's Initiative have provided Tanzania with cumulative debt relief of approximately USD 435 million. Under the more recent Multilateral Debt Relief Initiative (MDRI), the World Bank, IMF and African Development Bank will provide relief over the next ten years for all of Tanzania's debt outstanding since 2004.

Tanzania's Debt Stock with Non-Paris Club Creditors

16. (SBU) Tanzania's total debt stock with non-Paris club creditors amounted to USD 859 million as of June 2006, according to statistics provided by Tanzania's IMF country office. Tanzania's largest debt is owed to Iran: USD 262 million (77 million in DOD and USD 184 million in interest arrears). Tanzania's second largest debt is owed to Iraq: USD 171 million (with 36.3 million in DOD and 135.1 million in interest arrears); and its third largest debt to China: USD 145.5 million (145.5 DOD with 0 in interest arrears).

17. (C) Brazil, a Paris Club Member on a case-by-case basis, has been another significant creditor for Tanzania, providing financing for the construction of roads, dams and other infrastructure projects. Tanzania owes Brazil approximately USD 239 million from a series of loans which it took in the late 1980s. While Brazil has not officially provided any type of debt relief, Brazil's Ambassador to Tanzania, Appio Claudio Acquarone, told Econoff on August 29 that the Government of Brazil had agreed in 2002 to waive all of Tanzania's debt and is currently working with the GOT to finalize a bilateral agreement to that effect. Ambassador Acquarone also noted that until a bilateral agreement on debt relief was signed, credit lines to Tanzania would be suspended so that the two countries could start from a clean slate.

Bilateral Debt Relief from Non-Paris Club Creditors

18. (C) As noted above, Tanzania has received significant debt relief from bilateral creditors, including Paris and non-Paris club members. As of June 2006, total debt relief from bilateral creditors amounted to USD 1.04 billion, 17.7 percent of which came from non-Paris Club creditors. According to the BOT, non-Paris Club creditors have provided the following in terms of debt relief for Tanzania (USD):

-- Libya: In 2005, Libya canceled 101.7 million in debt and restructured 40 million into Treasury Bonds. Tanzania used financing from Libya for its energy sector.

-- China: In 1999, China canceled 15 interest free loans amounting to 37.7 million or one-third of Tanzania's bilateral debt to China. Tanzania used financing from China for rail transport (40.8 percent), ground transport (27.9 percent), industrial development (4.9 percent) and general budget support (26.3 percent).

-- India: In 2004, India eliminated all of Tanzania's debt worth 19.7 million. Tanzania used loans from India primarily

for rail transport.

-- Kuwait: Recently, Kuwait canceled Tanzania's debt worth 31.8 million. The BOT did not specify the date when debt relief was granted.

-- Bulgaria: Recently, Bulgaria has also canceled USD 15.1 million. The BOT did not specify the date when debt relief was provided.

Comment: Strength of Tanzania's Export Sector is Key

19. (SBU) Representatives from both the BOT and IMF emphasized the importance of Tanzania's export sector to its overall debt position. (Note: One measure of debt sustainability is the ratio of external debt to exports). In FY 2006, exports of goods and services increased by 8.9 percent and 5.1 percent respectively. The rise in exports emanated from increased traditional exports such as cotton, cloves, and tobacco and a rise in non-traditional exports such as gold, textiles and other manufactured goods. The positive trend for Tanzania's export performance, coupled with additional bilateral and multilateral debt relief initiatives, bodes well for Tanzania's debt situation overall. Important vulnerabilities do remain such as Tanzania's dependence on foreign aid, drought conditions that exacerbate food and energy shortages, and external factors such as terms of trade shocks. END COMMENT.
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